

## **Early Action Credit Pool**

### **Proposal for Stakeholder Feedback**

#### **Overview:**

The State of Michigan is seeking public comment on a proposal to give compliance credit for early action to reduce greenhouse gas emissions in order to help the state comply with the EPA's Clean Power Plan (CPP) in a low-cost manner. The CPP itself does not provide individual utilities with incentives for reducing emissions prior to 2020<sup>1</sup>. However, under a mass-based state plan, early actions can help the state benefit from lower compliance costs and lower energy bills. Under the CPP, states selecting a mass-based CPP compliance approach have latitude to award allowances based on a program of their own design. In this proposal, Michigan entertains a discussion of how allowance allocations might be used to reward actions that are not otherwise required by law which, though taken prior to 2020, will assist with compliance once the rule takes effect.

Stakeholder feedback on all aspects of this proposal are welcome. This proposal assumes a mass-based state plan, since that is the type of plan that allowance allocation applies.

#### **Establish an Early Action Credit Pool:**

An Early Action Credit Pool would be established containing an amount of allowances equal to 10% of Michigan's first-year (2022) EPA CO<sub>2</sub> emissions budget. Allowances in the Pool would be allocated for free to providers of qualified energy efficiency or renewable energy for actions undertaken in the next five years before the CPP compliance begins in 2022. Each allowance would permit its holder to emit one short ton of CO<sub>2</sub>. The goal is to provide credit for early actions that help the state benefit from lower compliance costs and lower energy bills. This Pool can also be considered as a "set aside" for early action.

#### **Qualifying Measures & Market Players:**

One allowance from the Early Action Credit Pool would be allocated to a qualified energy efficiency or renewable energy provider for each short ton of CO<sub>2</sub> reduced or avoided. Any provider of these services can qualify for the credits, thereby maximizing the fair treatment of all businesses and enabling the least-cost providers in the state. The pool of early action allowances would be split to allow up to 50% to be earned by energy efficiency and the other 50% by renewable energy. This early action pool serves as an incentive for measures not required by law nor already receiving incentives from other programs. As such, qualifying measures must demonstrate that they are not also receiving credit from other state or federal programs, including the EPA's Clean Energy Incentive Program.

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<sup>1</sup> The CPP provides states an opportunity to provide an incentive for some forms of early action taken in 2020-2021, namely developing renewable energy and low-income energy efficiency, under a program called the Clean Energy Incentive Program (CEIP). If the state decides to participate in the CEIP, the state needs to offer some allowances that the EPA will match, and the state's share of allowances would also have to be deducted from the available allowances. This proposal does not address the CEIP. No tons for this purpose have been included in the calculations for this proposal.

**Pool Budget Mechanics:**

Allowances for the Early Action Credit Pool would be obtained by reserving 10% of Michigan's annual EPA CO<sub>2</sub> emissions budget from the first year of the CPP compliance period. These early action allowances will be distributed in 2022, based on each qualifying actor's percent of qualifying clean energy action taken between 2017-2021. Tons reduced or avoided would be calculated by multiplying the MWh that a specific energy efficiency measure avoided or that a renewable energy project generated in a given year by the avoided emissions rate of that year, also known as a "system level average emissions rate". The avoided emissions rate for each year between 2017-2021 will be published in 2016, based on the findings of the state-sponsored modeling.

**Oversubscription or Undersubscription of Pool Allowances:**

If the tons qualifying for Early Action Credit Pool allowances exceeded the total in the half of the pool reserved for a particular measure, the "split" in the Pool would be removed and allowances could go to either project. If the overall tons qualifying exceed the overall size of the Pool, the allowances in the Pool would be allocated on a pro-rata proportional basis. For instance, if 100 allowances are available in the Pool, an EGU that is responsible for 60% of the energy efficiency and renewable energy developed in the state between 2017-2021, would receive 60 allowances from the Early Action Credit Pool. If the tons qualifying for the Pool are fewer than the number of allowances in the Pool in any given year, the remaining allowances would be distributed proportionally to those participating in the pool.